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PRESENTATION

Operator

Welcome to the Pfizer first-quarter 2009 earnings conference call. I will now turn the call over to your host, Mr. Chuck Triana, Senior Vice President of Investor Relations.

Chuck Triano - Pfizer - SVP IR

Good morning everyone and thank you for joining us today to review our first-quarter 2009 performance. I am here with Jeff Kindler, Frank D’Amelio, Ian Read, Martin Mackay, and Amy Schulman. The financial charts that will be presented on this call can be viewed on our home page at www.Pfizer.com in the Investor Presentations tab by clicking on the link, Quarterly Corporate Performance First-Quarter 2009.
We know this is a busy day for many of you with other companies reporting earnings, and our conference call will last one hour and we will end at 11 o'clock. Before we start, I would like to remind you that our discussions during this conference call will include forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. Factors that could cause actual results to differ are discussed in Pfizer’s 2008 annual report on Form 10-K and in our reports on Form 10-Q and Form 8-K.

Also the discussion during this conference call will include certain financial measures that were not prepared in accordance with generally accepted accounting principles. Reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures can be found in Pfizer’s current report on Form 8-K dated April 28, 2009. These reports are available on our website, again, at www.Pfizer.com in the Investors SEC Filing section.

With that, I will now turn the call over to Jeff Kindler.

Jeff Kindler - Pfizer - Chairman, CEO

Good morning everyone and thanks for joining us yesterday. I will start this morning with an overview of our first-quarter results, then make some brief comments about the operating environment, provide you with an update on our new business unit model, and conclude by reviewing the status of our planning for the pending Wyeth integration.

First our results. During the first quarter we continued reshaping our operating model, made substantial progress in planning for the Wyeth integration, and continued to face challenging economic and competitive conditions. Yet despite all of that, our colleagues remain intensely focused on meeting our current commitments to our shareholders. As a result, I am pleased to report that we produced revenues consistent with our expectations, and continued to deliver significant cost reductions. And we remain on track to meet our financial goals for the year.

Today we are reaffirming our 2009 guidance for revenues and adjusted results. As you saw in our release, we posted revenue of $10.9 billion, an 8% decrease compared to the first quarter of last year. The decline was due primarily to foreign exchange and last year’s loss of US exclusivity for Zyrtec and Camptosar. It also reflects lower revenues for Lipitor and the year-over-year decline in Chantix sales following last year’s US label changes.

As for the bottom line, we are building on the achievements of the last two years as we continue to streamline our cost base. Our adjusted total costs showed a reduction of roughly $500 million on a constant currency basis, due primarily to our cost reduction initiatives and to a lesser extent certain insurance recoveries.

Frank will take you through the numbers in more detail, but I would like to comment on two particular aspects of the operating environment, the economy and potential US healthcare reform. While the recession has clearly had some impact on the business, particularly in the United States, so far that impact has been in line with the expectations that were built into our 2009 guidance, which we are reaffirming today.

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I believe this is an environment in which we will see the benefits of our customer focused business units, since they are well-positioned, to adapt quickly to the changes they each see in their very different therapeutic and geographic markets.

As for potential US healthcare reform, we continue to participate actively in the discussions in Washington, and continue to see a strong effort by policymakers to engage all stakeholders in solutions that improve quality and reduce costs, while recognizing the critical importance of maintaining strong incentives for medical innovation. We firmly believe that there can be tremendous long-term value created for both our customers and our shareholders in a healthcare system that is more efficient, more performance oriented, and more financially sustainable than the one that we have now.
Meanwhile, we continue to make tremendous progress in reshaping Pfizer. Our move to customer focused business units is proceeding very well. Today we operate in a much more diversified way than in the past, as is appropriate given the many different geographic and therapeutic markets in which we compete. Collectively the business units in our Pharmaceutical business have full P&L responsibility from proof of concept through the end of the product lifecycle. This approach, unique in our industry, introduces a new level of market discipline. It demands clear focus and accountability, which is leading to faster, smarter, clearer decision-making.

Here are some examples. In March our Primary Care business launched a reshaped US field organization that is designed to reflect our projected needs after Lipitor loses exclusivity, while also protecting our market position today. This team now operates in five regions, where we are able to adapt the level of resources required, use sophisticated segmentation analysis to identify customer trends and preferences, and deploy this data to micro-target customers, focusing on high value opportunities.

This approach is enabling us to tailor decisions for our key brands. With Lyrica, for example, we are using multichannel communications to physicians, focusing on undiagnosed patients so that they will ask their doctors for relief from their pain, which may include using Lyrica.

For Celebrex, our DTC programs target key patient segments, and initial results show a significant increase in weekly volume in Celebrex call centers and visits to the Celebrex website.

Earlier this year the Primary Care business, reflecting our commitment to investing our owner’s capital wisely, discontinued two Phase 3 projects so they could focus on programs with much greater potential, such as pain and Alzheimer’s disease. Two weeks ago they moved forward on our work to address Alzheimer’s disease by starting a new Phase 3 trial of Dimebon with our partner Medivation.

The Primary Care business is also conducting Phase 3 trials with Tanezumab, which represents a totally new approach to pain and the treatment of osteoarthritis.

We are seeing similar progress in the other businesses as well. Our Specialty Care team is advancing a host of new ways to meet customer needs with its 13 medicines. They have re-prioritized Geodon in the US, backing it with a new field force. They are pursuing business development opportunities, which led to our agreements with Auxilium and Bausch & Lomb, as well as the new HIV company we are creating with GSK.

The Specialty Care business is also advancing its late stage development projects, especially our JAK-3 inhibitor. This compound is poised to be the first oral disease modifying drug for rheumatoid arthritis in a decade. And we will present additional Phase 2 data on it in June at the European League Against Rheumatism Conference.

In our Oncology business Sutent anchors our portfolio. More than 58,000 patients have used it. An extensive oncology development program is underway for 22 new molecular entities and new indications for current medications, including 10 Phase 3 trials in solid tumors. This work is attracting world-class talent to Pfizer, including Mace Rothenberg, our clinical development leader, who came from Vanderbilt, and Liz Barrett, our new US Regional President, who joined us last month from Cephalon, and J&J before that.

Meanwhile, our Emerging Markets business posted 5% operational growth in the first quarter. Asian grew 8% operationally, led by 28% operational growth in China, which was partly offset by declines in Korea, resulting from losses of exclusivity for both Norvasc and Lipitor. We saw nearly double-digit growth in the Middle East and African emerging markets, while given the current economic turmoil we saw a tempering of growth rates in Eastern Europe.

In light of the significant unmet medical needs in these parts of the world, we believe that over time revenues in these markets will grow substantially as health systems evolve, infrastructure is created and disposable incomes rise.
In a related area our Established Products business focuses on a relatively new priority for Pfizer, medicines that have lost exclusivity, or are about to do so. This unit was created in 2008 with the goal of recapturing value for these products in developed market geographies by progressively slowing the erosion of revenue and profit from established products.

Now normally in developed markets we see an immediate and rapid decline in revenue when branded products lose exclusivity, followed by a slower decline over the long-term, as more generics become available and prices erode. So job one is to stabilize the decline of current products by reducing the cost of goods, developing product enhancements and increasing promotional efforts.

For some products this translates into changing the growth trajectory from negative to positive. In one example, from its first year of operations this business took a set of five products that together declined in 2007, and generated positive growth through combined sales of $1 billion in 2008. This month when a competitor was unable to meet demand for nitroglycerin our US team quickly committed to supply our product, Nitrostat, meeting nearly 100% of the US demand for this life-saving medicine.

The second step of the journey is to generate growth by expanding our portfolio. That is why we did the Aurobindo deal, which we announced last month. This deal alone gives Pfizer rights to 39 generic solid oral dose products in the US and 20 in Europe, as well as 12 sterile injectable products in the US and Europe, including penicillins and cephalosporins. All of this points to positive long-term prospects for this business unit.

Finally, our Animal Health business saw lower global spending on veterinary care this quarter, which was reflected in a decline in revenue. But as pet owners around the world and meat and dairy producers adjust to the changing economy, we expect to return to more levels of spending on much-needed continued veterinary care.

Overall, our Animal Health business is well diversified, with a strong portfolio in more than 60 countries. This quarter we opened a new office in Shanghai to better serve the growing China and Asia Pacific markets. And with new companion animal and livestock products expected to be launched in certain countries this year, we continue to expect to see growth in global Animal Health revenues for 2009.

Now this progress across all of our businesses confirms that our new business unit model is the right one for Pfizer. So we have already begun planning its next phase, which is depicted in this slide, and which will take effect when the Wyeth transaction closes.

On the commercial side the new Pfizer will consist of nine diverse healthcare business units organized into two business groups. Specifically, as this next slide shows, the BioPharmaceuticals Group will be made up of Primary Care, Specialty Care, Oncology, Emerging Markets and Established Products, as well as a vaccines team in Specialty Care.

The Diversified Businesses Group will be made up of Animal Health, Capsugel, Consumer Health and Nutritional Health. Make no mistake, our commercial success depends on these businesses. So we will carefully allocate our owner’s capital based on the best opportunities to create value, and we will set profit targets for these businesses to meet. With those resources and targets set, the business units will then have the authority and the responsibility to deliver what their customers and our shareholders expect.

Meanwhile on the research side we are continuing to keep our commitment to improve productivity. In March of last year we told you we planned to advance between 10 and 12 new molecular entities, and new indications for current medicines, into late stage development by March of this year. We set that goal a year ago and we have now achieved it.

In the first quarter of this year we announced the start of Phase 3 clinical trials for two important molecular entities, our JAK-3 inhibitor and Tanezumab. Our R&D pipeline now consists of 100 programs. In total 21 programs advanced in the pipeline since September of last year. 12 of these are in our high-priority Invest to Win areas.
When the Wyeth deal closes we will continue this momentum by creating two distinct resource organizations, which you see summarized on this slide. The PharmaTherapeutics Research Group will focus on small molecule discovery and research, and the Biotherapeutics Research Group will focus on large molecules and vaccines. Within each group small focused, scientific teams will be led by world-class Chief Scientific Officers, who will be the single points of accountability for delivering medical advances. Our research teams will bring together the best of Pfizer's and Wyeth's talent to create a truly premier biopharmaceutical research effort.

In that regard, I am pleased to report that our integration planning is moving thoughtfully and quickly, while at the same time significantly reducing the distraction and disruption caused by the integration. Teams from both companies are meeting regularly, and our planning is being guided from lessons learned from past integrations. We are confident that when the deal closes we will be ready to execute our plans quickly.

On the financing front things are progressing smoothly. Early last month the banks financing the initial bridge loan completed its syndication, marking a significant milestone in our pending acquisition. A total of 34 banks have committed to the financing, which includes the five initial bridge lenders. The completion of the debt offering has reduced the bank commitment such that no one bank holds more than $600 million of the bridge, down from $4.5 billion.

Later last month we successfully completed our $13.5 billion offering of senior unsecured notes. We were able to issue this debt earlier than originally expected and at favorable interest rates that were lower than we expected. This debt offering allows us to reduce the bridge loan commitments received earlier, which will reduce our fees substantially.

We were pleased with the level of interest in the offering, and subject to market conditions, we may consider additional financing opportunities to further reduce the bridge facility.

Finally, things are progressing on the regulatory front as well. We continue to engage in a constructive dialogue with the appropriate regulatory agencies around the world, including the FTC, the European Commission, and the Chinese authorities.

As we anticipated and previously announced, we received a second request from the FTC. We have had productive discussions with the agency regarding the possible divestiture of some Animal Health products. These and other discussions are progressing as expected. We continue to progress with filings in other jurisdictions as well, and we have filed our S-4 registration statement with the SEC. All in all, our integration planning is moving smoothly. We remain on track to close the transaction around the end of the third quarter or in the fourth.

Let me conclude where I began. We face challenging economic and competitive conditions, as well as the losses of exclusivity that are inherent in our business. At the same time we are transforming our business model, advancing our pipeline, reducing our costs, and planning the integration of Wyeth. Yet with all of that, Pfizer colleagues remain intensely focused on delivering current results and meeting our commitments to our shareholders. And we will continue to do so.

With that, I will ask Frank to give you more detail on the first quarter.

**Frank D'Amelio - Pfizer - CFO**

Good morning everyone. The charts I am reviewing today are included in our webcast, and will help facilitate the discussion of our first quarter 2009 results. Now let me get onto our financials.

Reported revenues for the first quarter of 2009 were $10.9 billion, a decrease of 8% compared with the year ago quarter, reflecting the negative impact of foreign exchange, which decreased reported revenues by approximately $640 million, or 5%; the decline in Lipitor revenues due to continued intense competition; the loss of US exclusivity for Zyrtec in January of 2008 and Camptosar in February of 2008; and the decline in Chantix revenues, mainly due to label changes.
First quarter 2009 reported net income was $2.7 billion, a decrease of 2% compared with the year ago quarter. And reported diluted EPS was $0.40 compared with $0.41 in the prior year quarter, which were primarily driven by a decrease in total revenues and other income, the decrease in the effective -- the increase in the effective tax rate due to the increased tax costs associated with the financing of the pending Wyeth acquisition, and other costs associated with the pending acquisition.

These items were partially offset by savings from cost reduction initiatives and the elimination of IPR&D charges, compared with $398 million of IPR&D charges in the prior year quarter.

Included in our reported results are costs related to our pending acquisition of Wyeth, such as transaction costs, interest income expense related to the $13.5 billion debt offering completed in March, and other pre-integration costs.

Adjusted income of $3.7 billion and adjusted diluted EPS of $0.54, both decreased 11% year-over-year. As expected, these results reflect the decrease in total revenues and the increase in the effective tax rate to 30% from 22% in the year ago quarter, which was partially offset by savings from cost reduction initiatives.

Several significant items impacted our reported pretax results this quarter by approximately $473 million, including charges of $157 million for restructuring related to our cost reduction initiatives, $174 million for implementation cost primarily related to sites we exited or are in the process of exiting, and $132 million for certain legal matters.

Now I would like to provide more details regarding our first-quarter adjusted income components. Adjusted revenues of $10.8 billion, which exclude a minimum amount of transition services associated with the sale of the consumer healthcare business declined 8% year-over-year. Adjusted cost of sales as a percentage of revenue was 12.1% versus 15.3% in the prior year quarter, driven by the benefits of our ongoing cost reduction initiatives and the favorable impact of foreign exchange. Excluding the impact of foreign exchange in the first quarter, adjusted cost of sales as a percentage of revenues is 14.4%.

Adjusted SI&A expenses decreased 17% year-over-year due to the benefits of our ongoing cost reduction initiatives, and to a lesser extent, certain insurance recoveries, as well as foreign exchange, which decreased expenses by about $140 million versus the prior year quarter.

Adjusted R&D expenses increased 2% year-over-year due to the $150 million milestone payment to Bristol-Myers Squibb during the quarter associated with the collaboration on apixaban, which was partially set by the benefit of our ongoing cost reduction initiatives, and the positive impact of foreign exchange, which decreased R&D expenses by about $60 million versus the year ago quarter.

Adjusted income and adjusted diluted EPS were unfavorably affected by lower revenue, the higher effective tax rate, which were partially offset by benefits of cost reduction initiatives.

In the first quarter, on an adjusted results basis exchange decreased revenues by approximately $627 million or 5%. In the prior year quarter, foreign exchange increased revenues by approximately $570 million or 5%.

Our cost reduction initiatives continue to have a positive impact on our adjusted total cost this quarter. In addition, foreign exchange reduced these costs by approximately $536 million or 8% compared with the prior year quarter. Excluding the impact of foreign exchange, adjusted total costs decreased operationally by $497 million or 7% year-over-year.

That said, in the first quarter the net effect of foreign exchange on adjusted diluted EPS was a negative $0.02 versus a positive $0.03 in the year ago quarter. While foreign exchange benefit our cost and expenses during the first quarter of 2009, it had a large unfavorable impact on our revenues, as I previously mentioned.

As you know, on January 1, 2009, we expanded our new business unit operating structure. As a result, beginning this quarter, in addition to providing revenues for our Pharmaceutical and Animal Health businesses, we are also providing revenues for the...
five units within our Pharmaceutical business to help you better understand their respective performance. We believe this additional information provides greater transparency into our operating structure, as well as the impact these businesses have on our overall results.

Now let’s move to the results of these businesses. Within Pharmaceuticals, Primary Care revenues include those from human pharmaceutical products, mainly prescribed by primary care physicians, and generally fall within the following therapeutic disease areas, among many others -- Alzheimer’s disease, cardiovascular and pain.

Examples of products in these areas include Lipitor, Lyrica, Celebrex, Viagra and Chantix, among others. Primary care revenues were $5.3 billion, a decrease of 8% year-over-year, driven by the negative impact of foreign exchange, declines in Lipitor and Chantix revenues, and the loss of exclusivity of Zyrtec in January 2008.

Specialty care revenues include those from human pharmaceutical products that are mainly prescribed by specialist physicians, and span the following therapeutic and disease areas, among many others -- antivirals, inflammation, multiple sclerosis, and pulmonary hypertension. Examples of products in these areas include Xalatan, Zyvox, Revatio, Vfend, Geodon and Genotropin, among others. Specialty Care revenues of $1.46 billion increased 7% versus the prior year quarter, driven by solid operational performance of Revatio, Zyvox, Vfend and Xalatan, which were partially offset by the negative impact of foreign exchange, which decreased Specialty Care revenues by approximately 3%.

Oncology revenues include those from human oncology and oncology related products. Examples of products in Oncology included, but are not limited to, Sutent, Aromasin and Camptosar in Europe. Oncology revenues of $350 million decreased by approximately 17% year-over-year, primarily driven by the loss of US exclusivity of Camptosar in February of 2008, and the unfavorable impact of foreign exchange, which were partially offset by the strong international performance of Sutent.

established Products revenue generally include those from human pharmaceutical products that have lost marketing exclusivity. However, there are certain situations in which products may be transferred from Established Products prior to their loss of exclusivity to maximize their value.

It is important to note Established Products revenues include only those from established products sold in developed market geographies and exclude revenues from these products generated in Emerging Markets. Examples of products in this business include Norvasc, Camptosar, Zoloft, Relpax, Medrol, Cardura, among others.

Revenues for the Established Products business were $1.6 billion, a decrease of 12% versus the prior year, primarily resulting from declining sales of Norvasc and Camptosar, and to a lesser extent the unfavorable impact of foreign exchange.

Emerging Market revenues include those from all human pharmaceutical products sold in emerging markets including, but not limited to, Asia, excluding Japan, Latin America, the Middle East, Africa, Central and Eastern Europe, Russia, and Turkey.

Revenues generated in Emerging Markets were $1.35 billion, a decrease of 9% year-over-year, driven by operational growth of 5% primarily due to expansion in China, that was more than offset by the negative impact of foreign exchange, which decreased revenues by $215 million or 14%.

Animal Health revenues include those from products that treat livestock and companion animals. Animal Health revenues of $537 million decreased 13% versus the prior-year quarter due to decreased spending on veterinary care resulting from the challenging global economy, a planned change in US distributed terms resulting in an anticipated reduction in distributor inventories, and the negative impact of foreign exchange.

Now I would like to provide some select product results. Lyrica, Zyvox and Sutent recorded strong performance in both the US and in international markets. In addition, Viagra and Xalatan turned in strong performance in the US. As I mentioned earlier,
Lipitor revenues declined as a result of the continued intense competition, and Chantix revenues declined due to prior year label changes.

During the first quarter we continued to make progress on our ongoing cost reduction initiatives, achieving $330 million in cost reductions versus $208 million on a constant currency basis, which excludes insurance recoveries of $165 million. These cost reduction initiatives continue to span essentially all divisions, functions, markets and sites across Pfizer.

Broad categories of activity includes manufacturing and research site exits and targeted workforce reductions. In addition, we have a wide array of outsourcing opportunities in various stages of implementation. Manufacturing, logistics, finance, facilities, legal and IT are among the functions contributing to the financial and operational benefits of this strategy.

For example, outsourced manufacturing is now about 24% versus 17% in 2008. We are also continuing to size our workforce level with current market dynamics. Our workforce level at the end of the first quarter was 80,250, a net decrease of 1,650 compared with year end 2008. Since the beginning of 2008 we decreased our total workforce by approximately 6,350 positions. These reductions are net of new colleagues hired during the first quarter in certain expanding, primarily emerging markets.

We are on track to achieve our 2009 objectives and are reaffirming our 2009 financial guidance for revenues and all adjusted results. We are also reducing the range for reported diluted EPS to $1.20 to $1.35 to include certain costs that have been incurred as a result of the pending acquisition of Wyeth.

To date we have achieved many milestones related for our pending acquisition of Wyeth. These include syndicating the bridge loan to 34 banks, resulting in no bank holding more than $600 million of the facility, filing for Hart-Scott-Rodino notification, filing the preliminary S-4 for RCC review, completing our $13.5 billion debt offering, and announcing the Company’s post close organizational design and leadership team for our combined commercial and R&D organizations.

We also have many items that need to be completed, including achieving our ’09 financial objectives, working with the appropriate agencies to obtain the necessary regulatory clearances, the SEC declaring the S-4 effective, Wyeth obtaining shareholder approval, continuing to identify opportunities to further reduce the bridge facility, developing detailed synergy plans, and ultimately closing the transaction. We are committed to a rapid and successful integration with minimal disruption to our operations so we can hit the ground running on day one.

So to summarize the key takeaways, first-quarter results were consistent with our expectations. We reduced our cost by approximately $330 million this quarter on a constant currency basis due to operational improvements. And we have reaffirmed our ’09 guidance for revenues in all adjusted results.

We have also updated our guidance range for reported results to include certain acquisition related costs. Finally, our integration planning efforts remain on track. Now I will turn it back to Chuck.

Chuck Triano - Pfizer - SVP IR

Thanks for the review. Operator, at this point if you could please poll for questions, we can get started. Thank you.

Questions and Answers

Operator

(Operator Instructions). Catherine Arnold, Credit Suisse.
Catherine Arnold - Credit Suisse - Analyst

I wanted to ask you two things. One, could you talk about the obligations that you have from your bridge financing in your merger agreement related to what you can do on dividend policy, and how we should think about that?

Then secondly, Aurobindo wasn't a large financial deal, but it does hint at a strategy seeking a broader generic portfolio. Is that fair, and should we expect more of these types of arrangements as you shape the Company? And with that, could you give us an update on your interest in generic biologics?

Jeff Kindler - Pfizer - Chairman, CEO

Sure. I will ask Frank to address the first question, then Ian the second, and then I will add some further thoughts on the second question.

Frank D'Amelio - Pfizer - CFO

On the first question, given the terms of the merger agreement, we cannot increase the dividend obviously up and through the closing of the acquisition. Then there is obviously other terms and conditions in both the merger agreement and the bridge facility relative to other items where capital could be outlaid.

I think you asked me about the dividend, and the short answer is on the dividend, not until the deal is closed.

Ian Read - Pfizer - President Global Pharmaceutical Operations

Aurobindo is part of our overall strategy. As we look at the Emerging Markets and Established Products in general we clearly have to expand our portfolio. One way we are doing that is by partnering with the appropriate companies in the appropriate geographies to get the benefits of both their scale and their expertise. I think you can continue to see us look for selected partnerships, expanding our ability in both branded generics and generics.

And as regards generic biologics, we will review that strategy, I think, post the Wyeth acquisition and we can fundamentally understand our capabilities.

Jeff Kindler - Pfizer - Chairman, CEO

Right. I was just going to add on that latter point that clearly one of the benefits of the Wyeth transaction are the biologic manufacturing pharmaceutical science capabilities that we are very excited about that. That certainly creates the potential for opportunities in that area. And we are also supportive of establishing a regulatory pathway for biological follow-ons. So that is very much in sight.

Next question please.
Chris Schott - JPMorgan - Analyst

Just a question on SG&A. Following the first-quarter results, it appears you need to see basically flat year-over-year SG&A, or even maybe some growth, over the next quarters to get to that $13.5 billion to $14 million target. I guess with year-over-year FX benefits next two quarters, can you just have us understand what is driving that level of SG&A spend, in light of what appears to be pretty significant year-over-year declines we have seen in SG&A over the last several quarters?

And then just a second question on Lyrica, on a sequential basis it seems as though we are seeing some slowing volume growth here. I would just like a little bit more about your plans to reaccelerate this franchise.

Jeff Kindler - Pfizer - Chairman, CEO

I will let Frank take the first and Ian take the second question.

Frank D'Amelio - Pfizer - CFO

To your point, the guidance for SI&A for the year is $13.5 billion to $14 billion, which is what you referenced. Let me just run the numbers and I will answer your question.

If you look at the Q1 results to your point, they are down about from $3.4 billion to $2.8 billion, so down significantly. A significant portion of that is foreign exchange. So about $140 million or so of that is foreign exchange. Then we also had insurance recoveries this quarter, which reduced the SI&A line by about $165 million. And then operationally obviously is the difference between those two numbers, roughly half of the reduction.

In terms of the guidance, not only for SI&A but for all of our elements of costs and expenses, we clearly factored that into the guidance that we reaffirmed again today. And a couple of points to make on this. First, our results have some seasonal trending. If you look at our earnings, for example, last year if you look at Q1 earnings, they were higher than Q2, which was different than Q3. And then Q4 typically has a big spending quarter and has the best from an earnings perspective.

But there is seasonality so that you just can't take a quarter and then straight line that and assume that that is the number for the year. We had the benefit from the insurance recoveries this quarter of $165 million, which lowered the SI&A overall.

Then third, I think, the other key point to make is our results this quarter were consistent with our internal expectations and part of the overall guidance that we provided for the year.

Jeff Kindler - Pfizer - Chairman, CEO

Thanks, Frank. Ian, on Lyrica please.

Ian Read - Pfizer - President Global Pharmaceutical Operations

Chris, you are right on Lyrica. I would just like to point out first of all that we did see 33% operational growth international, and that will become a more important part of that franchise as we go forward.
That being said, in the US what we are really seeing is continued penetration and growth in fibromyalgia, where we grew quarter on quarter a year ago some 28%. But we are losing share in scripts in DP and in PHN. That is being driven probably by two major forces. One, I do think we are being affected by the worsening economy and the co-pays are impacting people's willingness. Second, the managed care does have a feel failed first strategy in this class.

So to deal with this we really have three strategies here. One, market development. In TPN there is about 3 million sufferers in the US. About 1.6 million are diagnosed, and only 0.8 million are actually treated. So one is market development, helping patients clearly articulate their pain and get the right medication.

Two, access strategy. We have to continue to work, especially on the Medicaid side, to get Lyrica out of Tier 3 and into Tier 2. And three, co-pay assistance -- co-pay assistance cards to patients to help them deal with the co-pays and the economic difficulties as we go through this period. So that is the overall review of our strategy.

**Operator**

Tim Anderson, Sanford Bernstein.

**Tim Anderson - Sanford Bernstein - Analyst**

A couple of questions. In your Established Products Group, if I understood the description right, it sounds like we should generally expect to see year-on-year declines in the aggregate when you report your quarterly results, or could it at some point turn positive? I am just trying to figure out how investors should think about monitoring your performance in this division going into the future.

Second question is on comments you made on Emerging Markets and the level of investment. Can you try to quantify that -- give us, for example, the year-on-year increase, and full-time employees, and what that might look like a year from now? Are we going to continue to see heavy investments there going forward?

**Jeff Kindler - Pfizer - Chairman, CEO**

Frank?

**Frank D'Amelio - Pfizer - CFO**

I think the way to think about this for Established Products is I will call it the rhythm of the business, or at least how we think about it is if there was no interventions, then clearly that business would be declining on a year-to-year basis, just given the nature of what goes into that business unit.

So by establishing an individual business unit, creating acute focus on that area of the business, what we want to do is, I will call it almost a three step. The way I think about it is, step one is decelerate the decline. So clip the rate of decline, so that if it is declining at X, that is better than what it would have been. It would have declined more if we didn't have the intervention relative to the business unit and the acute focus and the various actions that we are taking.

So step one, I will call decelerate the decline. Step two, and this is over a period of time, would be stabilize the business, which is one of the things that Jeff alluded to. So we clearly want to go from decelerating the decline to stabilizing the business. And clearly actions like the Aurobindo transaction that we alluded to where we add 39 solid oral dose products and 12 sterile injectable products into our portfolio, are actions we're going to take to do that.
Ultimately as you get out, we would like to try to grow that business. But that is -- I call that an ultimate. So think about the rhythm of that is, decelerate the decline, stabilize, and then ultimately try to grow that business through organic actions, and then I will call it nonorganic action. So that is the way I think about Established Products. Ian, do you want to add anything?

**Ian Read - Pfizer - President Global Pharmaceutical Operations**

No, I think you explained it perfectly, Frank.

**Jeff Kindler - Pfizer - Chairman, CEO**

If I could, before you go to the next part of Tim’s question, Frank, just add one thing. I just want to emphasize for clarity that when we are talking about the Established Products business and everything Frank just said, we are talking about Established Products in the developed markets. And that is where, as you know, Tim, we have historically seen, and the industry has very rapid decline. So Frank’s comments about deceleration, stabilization and ultimate growth are applicable there.

Established products in the emerging markets is part of our Emerging Markets business, where we expect it to continue to contribute to genuine growth.

**Frank D’Amelio - Pfizer - CFO**

That is a good clarification. Then let me just answer the question on Emerging Markets, which is, just first I want to run the numbers. Revenues this quarter were about $1.4 billion. Even though they were down on a reported basis, they were up operationally by 5% in what is just very difficult kind of macroeconomic environment globally, including the emerging markets. So we continue to have good traction.

I mentioned in my comments a lot of that growth was primarily driven in China. I wanted to come back to that, because one of the areas where we are deploying capital, for example, and seeing a return is in China. We have been expanding the field force there. We have been expanding the countries that we have presence there. A lot more feet on the street. And we are clearly getting a return there.

We will continue to use that kind of rigorous approach to how we deploy capital across the business, including Emerging Markets. And all the businesses have to compete for our capital and, quite frankly, generate economic profit, which means returns that exceed our overall cost of capital. That is what we have been doing; that is what we will continue to do.

**Operator**

(technical difficulty). Jamie Rubin, Goldman Sachs.

**Jamie Rubin - Goldman Sachs - Analyst**

I have two questions. One is a follow-up from an earlier question. If you refinance your bridge loan by doing an euro bond offering, will that allow you then -- or will the restrictions that apply to the bridge loan than go away and allow you to then raise the dividend?

The other question that I have relates to going back to the Emerging Markets question. I think this is the first time you have actually isolated your Emerging Markets sales of $1.3 billion, up 5% operationally. I am wondering, Jeff, if you can provide a little bit more detail. When you gave your revenue guidance of $70 billion by 2012, I think that many of us sort of struggled to
get there. One of the opportunities to get there was in the Emerging Markets area to the tune of several billion dollars, which is a long way from -- in additional to where you are right now there.

So if you could talk about a bit more about that opportunity, and is that opportunity an organically driven opportunity or one that will require acquisitions?

**Jeff Kindler - Pfizer - Chairman, CEO**

I will let Frank start on both questions, and Ian can comment on the second part, and then I will add some at the end of that. Go ahead, Frank.

**Frank D'Amelio - Pfizer - CFO**

On the bridge facility, to the extent that we take actions to further reduce the bridge, and obviously we are exploring any and all opportunities to do that. To the extent that we were to reduce the bridge, and ultimately eliminate the bridge so that we didn't have a bridge facility anymore, then any constraints that we had that were specific to the bridge facility would go away.

We would still have the merger agreement constraints. That would be open. That would still be in place until we closed the transaction. So there is really two different agreement, and each of those agreements has different terms and conditions relative to the deployment of capital. That is the way to think about it.

So we eliminate the bridge -- if we were to take actions to do that, then those constraints would go away.

Relative to -- and by the way, I think you asked me about the dividend specifically. I think the other point I should make is, please recognize we get how important the dividend is to our shareholders. So obviously we understand how important the dividend is to our shareholders.

In terms of Emerging Markets, let me just run some numbers on how we think about this. This is always in the context of the approximately $70 billion target that we put out there to 2012. Clearly that $70 billion is in sales comparable to what the two companies generated in 2008. We were at about $48 billion and change, Wyeth was at about $22 billion. So despite some of the LOE items that we are going to have between now and 2012, we put a target out there for 2012 that was comparable to our 2008 combined sales. Kind of point one.

One of the ways that we clearly believe we will get to that number -- to achieve that number is through growth in emerging markets. Now let me just run some numbers and Ian and Jeff will add to this. If you look at Asia Pacific, excluding Japan, New Zealand and Australia, that market at the end of last year was about $50 billion. We had about -- give or take -- about 4% of that market. So if you run those numbers, 4% on $50 billion is about $2 billion.

We expect that market to grow to $75 billion to $80 billion over the next couple of years, by 2012. If we were to just keep our share, $4 billion on $70 billion -- 4% on $70 billion is $2.8 billion. If we could grow our share to 6%, now we are at $4.8 billion. That in and of itself in that one region, is almost $3 billion of incremental revenue.

So clearly we think the opportunities are there. And what it is going to boil down to is execution. And given our relationships in these places, how long we have been there, the investments we have made there, we think we clearly have the ability to execute successfully in these emerging markets. Ian?
Ian Read - Pfizer - President Global Pharmaceutical Operations

I will just add, for a full year -- so if you just take first quarter, so we are assuming around a $5 billion for the full year. We grew 5% in the first quarter. I think that is below our long-term expectations in the emerging markets. The BRIC markets in this quarter, in fact, did grow 16% operationally for us. We are investing heavily. We are looking for opportunities. We have great capabilities. We are bringing in the Wyeth portfolio post acquisition, which has great potential in emerging markets. So I think we are very focused on generating maximum growth and gaining share.

And you add to that the type of work we have done with Aurobindo to supplement our portfolio, and I think we are one of the few companies that are really focused in driving this strategy.

Jeff Kindler - Pfizer - Chairman, CEO

I will just add to what Ian and Frank said. You asked about organic versus business development, and certainly we have been, and we will continue to look for opportunities for smaller or midsize opportunities to engage in business development. Aurobindo was a recent example. As I said earlier, a significant part of the growth in emerging markets does involve established products, and we will continue to look for those kinds of opportunities as well.

Operator

Roopesh Patel, UBS.

Roopesh Patel - UBS - Analyst

Just a couple of quick questions. First on inventories, Frank, if you could just clarify how many weeks of inventory you ended the quarter with here in the US?

And then separately on Chantix, if you could just elaborate on the trends that you are seeing here in the US and overseas?

Frank D'Amelio - Pfizer - CFO

In terms of inventory levels, the inventory levels at the end of this quarter were literally the same as they were at the end of Q1 '08. So no change in overall inventory levels Q1 '09 to Q1 '08 from a weeks on hand perspective. Now obviously some changes by individual product, as you would expect, but when you put all -- when you net out all the puts and takes, weeks on hand (technical difficulty) to the next on a year-over-year basis remained the same.

Ian Read - Pfizer - President Global Pharmaceutical Operations

So on overall for Chantix, the good news is that we have now had 10 million patients globally who have used Chantix. And we continue to focus our strategies on rebuilding this brand.

I think we saw in the first quarter versus fourth quarter sequential growth in scripts, which is heartening and does indicate that the product does respond to the type of strategies we are implementing. Basically they cover engaging physicians in what we call a safety first dialog to ensure physicians understand the risks associated with any type of smoking cessation.

We are continuing to develop our consumer platforms that activate consumers. When consumers ask for a smoking cessation product in the physician’s office, 88% of the time they get Chantix. So clearly the message is getting through to physicians -- patients when they hear our message.
And we continue to work on ensuring coverage, and we are doing well in the US. I think the international business development -- or the international development of Chantix does depend on getting the right policies in countries like Japan and China, the right smoking policies and then coverage.

Frank D’Amelio - Pfizer - CFO
I am sorry, Roopesh. I didn’t give you the number in terms of weeks on hand in inventory. It was 3.7 weeks on hand, which is what it was in Q1 of ’08.

Operator
[David Reisinger], Morgan Stanley.

David Reisinger - Morgan Stanley - Analyst
I have a couple of questions. First, with respect to the Established Products category, Frank, if you could just detail when a product shifts in your segment reporting from Primary Care to Established Products? So for example, let’s say that a drug goes generic in the United States in February in a given year, when would that shift in terms of segment reporting?

Second, if you could maybe talk at a higher level about your goal to ultimately stabilize revenue and profit from Established Products -- I am just wondering if you see that it is possible in a commodity business with ever lower price competition emanating from Asia?

And then my final question relates to the dividend. Frank, maybe you could talk about your vision for cash flow longer-term at the Company, and talk about the dividend from a longer-term perspective post the Wyeth transaction.

Frank D’Amelio - Pfizer - CFO
I will handle the one and three. I think Ian, you will talk to the second part of his question.

First, Dave, in terms of when does a product shift into Established Products. At a macro level, I think about it very simply. The term I like to use is operational cause equals financial effect. So what that translates to is when we operationally move a product from one of the business units to Established Products, that is when the financials will then move from that business unit to the Established Products business unit.

So just the principle is operational cost equals financial effect, and that is how we will, we are and we will continue to do that on a going forward basis. We think that is clearly -- I think that is clearly the best way to do this.

Ian, you want to hit on the Established Products?

Ian Read - Pfizer - President Global Pharmaceutical Operations
There are two components to that, so let's just talk about first of all the Established Products that we sell in the emerging markets. These are, we believe, somewhat more protected from the type of price competition you were talking about in the developed markets. And they will benefit from an overall strategy that the Established Products business unit is progressing, such as reformulations, enhancements in the product, and driving down efficient production, or achieving efficient production. So in emerging markets we see substantial growth from those Established Products.
Now in the developed markets, to your point, we are seeing increased price competition, certainly in Europe. And the way to deal with that is through expanding our offerings to get even more solid oral doses, looking for differentiated dosage forms, and trying to avoid direct price competition.

That being said, with a very focused manufacturing strategy, we would also participate in that segment where we believe we can be profitable. It is a balance, I agree with you, of losing on the price side and gaining it back in both volumes on the base and new volumes from new launches and new partnerships.

Frank D'Amelio - Pfizer - CFO
Then let me just hit the third part of your question, which was on the dividend. And then I think the way you described it was our longer-term thinking. So let me just run the numbers first, and then I will answer the question.

Our dividend, up until this year, was $1.28, so $0.32 a quarter. When we announced the Wyeth acquisition, we reduced the dividend in half, so we cut that from $1.28 to $0.64, so at $0.32 a quarter to $0.16 a quarter, with that really being effective in Q2. So actually for this year, the dividend will pay $.80 and $.16 a quarter really starting in Q2. So that is point one.

Point two is we said that one of the targets we put out for the new Company in 2012 was to be generating operating cash flow that was $20 billion plus a year. As we are on a path to doing that, as we are executing on the deal, on the acquisition, as we are continuing to improve on the financials, as we integrate on the implementation and the integration of the deal, we will begin to see that obviously before 2012.

As we start to generate that significant operating cash flow, we will have lots of financial flexibility. And I think about that in terms of giving us lots of choices and options, specifically in the following areas. One is the level of the dividend we paid. Another is the amount of shares that we repurchase. Another is the amount of business development that we do. Another one is the amount of cash that we repatriate. We could actually choose to repatriate less cash, which would reduce the tax rate, increase earnings. And then finally is the amount of debt that we pay down.

As we execute, as we implement, as we start to generate that operating cash flow that we expect to generate as a result of the acquisition, we will have a lot of financial flexibility, a lot of choices. And we will obviously evaluate those as we go forward.

Operator
John Boris, Citigroup.

John Boris - Citigroup - Analyst
First question is for Jeff. In that you are actively engaged in the healthcare reform debate in DC, on price and comparative effectiveness can you potentially maybe address where you believe pricing, and how much more important comparative effectiveness will be, and how you might be prepared to deal with that on the new product opportunities that you are developing, and also on deferral of taxing?

Can you also maybe just address where the silver lining may be for the industry? Most notably in the 47 million patients that don't have healthcare coverage, is there any kind of volume gain, or assessment that you have done on volume gain, that you might be able to get from 47 million people being added in?

One question for Frank on Aurobindo. Can you just give the annual run rate on the Aurobindo products, just for modeling purposes?
Jeff Kindler - Pfizer - Chairman, CEO

Let me say a couple of things. You have referenced a number of things that are being discussed in Washington. Let me, if I could, sort of make a broad statement and then go into some of the specifics.

I think it is too early to predict exactly the shape that reform may take. But I will tell you that we continue to see a very serious effort by all the key figures, both in the White House and in Congress, to work with all of the stakeholders and seek common ground. And we have been gratified that engagement by our industry has been welcomed.

I will tell you also that we continue to see a recognition that support for innovation and biomedical research has to be an important element of reform. So specific to some of the points you made, for example, independent of comparative effectiveness, it is certainly incumbent upon us to continue to develop products that have demonstrable value to our patients and to payers. And we, I think, have gotten much better earlier in our process of clinical development to involve and consult with payers and key opinion leaders and patient groups to ensure that we do that. And we will continue to do that independent of any legislative changes.

In terms of the overall potential benefits, I did say in my opening remarks that I think there can be tremendous potential value for both our customers and our shareholders in a healthcare system that is more efficient, more performance oriented, more financially sustainable, provides more coverage for more people, a greater focus on prevention and wellness, on adherence, on primary care, disease management, and all of those kinds of considerations are very much top of mind among policymakers right now. As I said, we are gratified to be having an opportunity to participate constructively in that regard.

You also mentioned deferral. The administration hasn't yet clarified exactly how it is thinking about tax deferral. And obviously we are monitoring that closely and we will continue to do so. And maybe, Frank, you might have one or two other things to say about that.

Frank D'Amelio - Pfizer - CFO

Sure. On deferral, maybe just a couple of statements on that. One, obviously conversations continue around tax reform, and in particular around deferral.

Two, that reform could take the shape that could negatively impact the industry and our results. I think, third, the key point there is to the extent that it did, it would have much less of an expected -- of an impact on us than it would have previously because of the fact that we increased our effective tax rate this year to about 30%. So I think that is just a net out on tax reform.

Relative to Aurobindo, I think the way I will answer that is initially we don’t expect that to have any kind of material impact. And then over time we obviously expect that business to build, and that is part of the opportunities in emerging markets and Established Products, and obviously part of the $70 billion that we put out there as a target for 2012.

Operator

Seamus Fernandez, Leerink Swann.

Seamus Fernandez - Leerink Swann - Analyst

My questions just are on the process at the FTC, as well as some of the international markets. Basically the question being, what is left that has to be run through with the US FTC? What data points should we be looking for with regard to the European Union's review of the merger?
And then lastly, are there any emerging markets, particularly China, which posted, I believe, some new rules with regard to regulatory combinations in August of 2008. Are there any issues associated with that or have you already passed the regulatory hurdles in China?

**Jeff Kindler - Pfizer - Chairman, CEO**

I will ask Amy Schulman, our General Counsel, to respond to those questions.

**Amy Schulman - Pfizer - General Counsel**

I think it is important for everybody to recognize that we are working cooperatively and in an ongoing fashion with the regulatory agencies in the EU, with China, which as you mentioned, does have a new regulatory process with which we are actively engaged.

As expected, we got a second request from the FTC. It was as anticipated, and we are in the process of working cooperatively with the FTC. The bottom line on the regulatory issues is that they are progressing as we anticipated.

**Chuck Triano - Pfizer - SVP IR**

Thanks everyone for joining us today. That is all the time we have. We wish you all a very good day.

**Operator**

This concludes our conference call for today. Thank you everyone for joining. You may now disconnect.